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November 19, 2012

VIA ELECTRONIC FILING

Jocelyn Boyd, Esquire
Chief Clerk and Administrator
South Carolina Public Service Commission
101 Executive Center Drive
Columbia, SC 29210

RE: Application of Tega Cay Water Service, Inc. for Adjustment of Rates and Charges and
Modifications of Certain Terms and Conditions for the Provision of Water and Sewer
Service
Docket No. 2012-177-WS

Dear Ms. Boyd:

Enclosed please find for filing the prefiled **Direct Testimony of Steven Lubertozi** and the prefiled
Direct Testimony of Karen Sasic on behalf of Tega Cay Water Service, Inc. in the above referenced
docket. By copy of this letter, I am serving all parties of record.

If you have any questions or if I may provide you with any additional information, please do not
hesitate to contact me.

Sincerely,

Elliott & Elliott, P.A.


Scott Elliott

SE/mjl

Enclosure

cc: All parties of record w/enc.

CERTIFICATE OF SERVICE

The undersigned employee of Elliott & Elliott, P.A. does hereby certify that she has served below listed parties with a copy of the pleading(s) indicated below by mailing a copy of same to them in the United States mail, by regular mail, with sufficient postage affixed thereto and return address clearly marked on the date indicated below:

RE: Application of Tega Cay Water Service, Inc. for
Adjustment of Rates and Charges and Modifications to
Certain Terms and Conditions for the Provision of Water
and Sewer Service

Docket No. 2012-177-WS

PARTIES SERVED:

Jeffrey M. Nelson, Esquire
Shannon B. Hudson, Esquire
Office of Regulatory Staff
1401 Main Street, Suite 900
Columbia, SC 29201

PLEADING: Direct Prefiled Testimony of Steven Lubertozzi
Direct Prefiled Testimony of Karen Sasic

November 19, 2012



MaryJo Lawracy
Legal Assistant

BEFORE
THE PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA
DOCKET NO. 2012-177-WS

IN RE: Application of Tega Cay Water Service,)
Inc. for Adjustment of Rates and Charges)
and Modifications to Certain Terms and)
Conditions for the Provision of Water)
and Sewer Service)
_____)

DIRECT TESTIMONY

OF

KAREN SASIC

1 **Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?**

2 **A.**My name is Karen Sasic and my business address is 200 Weathersfield Avenue,
3 Altamonte Springs, Florida, 32714-4027.

4 **Q. WHAT IS YOUR CURRENT POSITION OF EMPLOYMENT?**

5 **A.**I am the Director of Customer Care for Utilities, Inc., with oversight
6 responsibility for customer service and billing within the 15 states we serve, which
7 includes Tega Cay Water Service, Inc.

8 **Q. HOW LONG HAVE YOU BEEN EMPLOYED BY UTILITIES, INC.?**

9 **A.**Seventeen years.

10 **Q. WHAT IS YOUR EDUCATIONAL AND EMPLOYMENT BACKGROUND?**

11 **A.**I hold an Associate's degree in Business Administration from Miami-Dade
12 Community College with continued coursework in business from Florida International
13 University. I began working with the company in 1995 as a Customer Service
14 Representative. In 1998, I moved into the operations department as an Administrative
15 Assistant. In 2001, I was promoted to Executive Assistant to the Vice President of
16 Operations in our Florida office. In 2003, I was promoted to Regional Office Manager in
17 our Florida office, overseeing the Customer Service for Florida Operations. In 2008, I
18 took over management of the company's customer service functions for Louisiana. In
19 November 2009, I was promoted to the position of Manager of Customer Service for the
20 entire company. In January 2011, I was promoted to Director of Customer Care over
21 customer service in our 3 call centers located in Altamonte Springs, Florida, Charlotte,
22 North Carolina and Pahrump, Nevada as well as our Billing Department located in

1 Northbrook, Illinois. In addition, I have served on the National Association of Water
2 Companies Customer Service Committee since March 2008.

3 **Q. WHAT DOES YOUR CURRENT POSITION ENTAIL?**

4 **A.** As Director of Customer Care, I am responsible for the oversight of our three call
5 centers that support customers in the various states where Utilities, Inc. subsidiaries
6 operate, ensuring that our customer service personnel provide the best possible customer
7 service and respond to customer inquiries in a timely and polite manner. In addition, I
8 am responsible for the oversight of our Billing Department and work to ensure that
9 customers receive timely and accurate bills.

10 **Q. WHAT EXPERIENCE DO YOU HAVE IN TESTIFYING BEFORE STATE**
11 **UTILITY COMMISSIONS?**

12 **A.** I have testified before this Commission in rate relief proceedings as well as rate
13 relief proceedings in Indiana, Kentucky and Nevada. In addition, I have provided
14 supporting data for staff testifying in rate relief proceedings in Arizona, Florida, Illinois,
15 Louisiana, Maryland, Nevada, North Carolina and Pennsylvania.

16 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING,**
17 **MS. SASIC?**

18 **A.** The purpose of my testimony is to describe Tega Cay's customer service and
19 billing and to describe our results during the test year.

20 **Q. DURING THE TEST YEAR, WERE ALL TEGA CAY BILLS ISSUED ON TIME?**

21 **A.** 99.1% of bills were issued on time during the test year.

22

A. Yes. During the test year, the less than 1% of bills that were delayed were the result of issues such as blocked access to the meter, fogged meter glass and water in the meter boxes.

Q. ON THE SMALL PERCENTAGE OF OCCASIONS WHERE A BILLING DELAY OCCURS, HOW ARE YOUR CUSTOMERS IMPACTED BY A BILLING DELAY?

A. Other than receiving their bill a few days later than normal, there is no impact. They still have the same amount of time to pay their bill. Any balance unpaid within 25 days of the billing date are assessed a late payment charge of 1 ½%.

Q. DOES TEGA CAY MEASURE ITS PERFORMANCE IN THE TIMELINESS AND ACCURACY OF BILLS?

A. Yes. Tega Cay has developed Key Performance Indicators (KPIs) to objectively measure performance and bring accountability to the billing process. The results for the billing KPI's adopted by Tega Cay for the test year and first three quarters of 2012 are indicated below:

Objectives	Measure	2011				2012		
		1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12
Timely & Accurate Billing	% of Bills On-Time	99.2%	98.8%	98.7%	99.7%	99.4%	99.3%	99.3%
	% of Accurate Bills	99.1%	99.1%	98.4%	99.1%	99.5%	99.2%	99.3%

1 Q. EVEN THOUGH YOUR KPIS DEMONSTRATE TIMELY AND ACCURATE
2 BILLING PRACTICES, DOES TEGA CAY CONTINUE TO WORK TO
3 IMPROVE ITS BILLING PRACTICES?

4 A. Yes. While our goal is to have bills that are 100% timely and accurate , we are
5 encouraged by our results and continue to work toward improving our billing and meter
6 reading practices. Our billing and customer service personnel work closely with the
7 meter readers to ensure they are obtaining timely and accurate meter readings each
8 month. The communication between the office and the field helps to identify meter
9 reading issues early in the billing process minimizing delayed bill issuance to Tega Cay
10 customers.

11 Q. CAN YOU DESCRIBE HOW TEGA CAY CUSTOMER BILLS ARE
12 CALCULATED?

13 A. Tega Cay residential customers are billed in accordance with the rates established in
14 Docket No. 2009-473-WS Order No. 2010-557. Customer bills provide a line item
15 breakdown of all approved charges which include a water base facility charge of \$8.71
16 per unit, water distribution charge of \$2.06 per 1,000 gallons, York County base facility
17 charge of \$.39, York County water supply charge of \$3.26 per 1,000 gallons and a flat
18 wastewater charge of \$39.06 per unit.

19 Q. DO TEGA CAY CUSTOMERS EXPERIENCE A DELAY IN BILL ISSUANCE AS
20 A RESULT OF RECEIVING BULK WATER FROM YORK COUNTY?

21 A. No, they do not. Customer bills are issued within several days of their meter being read
22 in the normal monthly cycle. Because Tega Cay does not have to wait for the York
23 County bulk invoice in order to calculate a pro-rata supply charge each month, our

1 billings are timely. Tega Cay pays for its bulk water from York County based upon the
2 aggregate of all customers' usage as registered on their water meters each month.

3 **Q. PLEASE DESCRIBE TEGA CAY'S CUSTOMER SERVICE.**

4 **A.** At Tega Cay we are committed to providing the best possible service to all customers.
5 Tega Cay customers are served by customer service staff that operates from any one of
6 three call centers which, as I mentioned earlier, are located in nearby Charlotte, North
7 Carolina, Altamonte Springs, Florida, and Pahrump, Nevada. Customer service
8 representatives in all three of these locations are trained to handle a wide variety of
9 customer needs. Customer service managers and supervisors provide continual training
10 through staff meetings that focus on new policies and procedures, reinforcement of
11 existing policies and procedures and coaching on proper phone etiquette to meet the
12 company expectations of providing quality service to all customers. In addition,
13 customer service representatives receive training in billing exceptions, state regulations
14 and quality monitoring evaluations. Billing, service quality, service scheduling and
15 emergency dispatch issues are all handled through this department. Once a call is
16 received, our customer service representatives can communicate directly with field
17 personnel who live and work in the community. If the customer service representative is
18 unable to resolve an issue such as a service issue, that representative will communicate
19 directly with an operator in Tega Cay to schedule a service call. Tega Cay's service
20 standard is to respond to all emergency calls, such as water outages, sewage back-ups and
21 main breaks immediately and within 24 hours of customer notification.

22 **Q. DOES TEGA CAY MEASURE ITS PERFORMANCE IN THE TIMELINESS OF**
23 **ITS FIELD ACTIVITIES GENERATED BY CUSTOMER REQUESTED**

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2012-177-WS

IN RE:)
)
Application of Tega Cay Water Service,)
Inc. for adjustment of rates and charges)
and modifications to certain terms)
and conditions for the provision of)
water and sewer service.)
_____)

DIRECT TESTIMONY
OF
STEVEN LUBERTOZZI

1 **Q. WOULD YOU PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS**
2 **ADDRESS FOR THE RECORD?**

3 A. My name is Steven M. Lubertozzi. I am employed as the Executive Director of
4 Regulatory Accounting and Affairs at Utilities, Inc., through its shared services
5 organization, 2335 Sanders Road, Northbrook, Illinois 60062.

6 **Q. PLEASE SUMMARIZE YOUR PROFESSIONAL BACKGROUND.**

7 A. I have been employed by Utilities, Inc., as an employee or independent contractor,
8 since June of 2001. I have been involved in many phases of ratemaking in several
9 regulatory jurisdictions. I have testified in multiple regulatory jurisdictions, including
10 South Carolina, North Carolina, Florida, Illinois, Indiana, Maryland, Kentucky, and New
11 Mexico. I graduated from Indiana University in 1990, and I am a Certified Public
12 Accountant. I earned my Master of Business Administration from Northwestern
13 University's Kellogg School of Management. I am a member of the American Institute of
14 Certified Public Accountants.

15 **Q. WHAT ARE YOUR JOB RESPONSIBILITIES AT UTILITIES, INC.?**

16 A. My responsibilities encompass all aspects of utility commission regulation in
17 fifteen of the states where Utilities, Inc. operates (Georgia does not regulate water and
18 sewer utilities). These duties include preparation of rate case applications, coordinating
19 commission audits, developing and delivering testimony before utility commissions and
20 obtaining commission approval of territory expansions.

21 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

1 A. The purpose of my testimony is to sponsor Tega Cay Water Service, Inc.'s
2 application for an adjustment of certain rates and charges for the provision of water and
3 sewer services.

4 **Q. PLEASE DESCRIBE TEGA CAY WATER SERVICE, INC.**

5 A. Tega Cay Water Service, Inc. which I will sometimes refer to as "Tega Cay" or
6 the "Company", is a wholly owned subsidiary of Utilities, Inc. Tega Cay Water Service,
7 Inc. was incorporated in 1991 for the purpose of owning and operating water utility
8 systems. Currently, Tega Cay serves water and sewer customers located in York County.

9 **Q. WOULD YOU PLEASE DESCRIBE UTILITIES, INC.?**

10 A. Yes. Utilities, Inc. is unique within the water and sewer industry in many
11 respects. From its inception almost 40 years ago, Utilities, Inc. has concentrated on the
12 purchase, formation and expansion of smaller water and/or sewer utility systems. At the
13 present time, Utilities, Inc. has over 70 systems that provide service to approximately
14 300,000 customers in 15 states.

15 **Q. DO TEGA CAY CUSTOMERS BENEFIT FROM THE COMPANY'S**
16 **SUBSIDIARY RELATIONSHIP WITH UTILITIES, INC.?**

17 A. Yes. The Company's relationship with Utilities, Inc. has many benefits for our
18 customers. One of the primary benefits is that Tega Cay has access to a large pool of
19 human resources from which to draw upon. There are experts in various critical areas,
20 such as construction, engineering operations, accounting, data processing, billing,
21 regulation, customer service, etc. This serves Tega Cay's customers well in that Utilities,
22 Inc. is able to provide the highest level of combined expertise and experience in a more
23 cost effective manner. Because the Utilities, Inc. companies are focused on the

1 water and sewer industry, our companies enjoy some unique advantages, one of which is
2 that capital is available for improvements to and expansions of our individual systems at
3 a more reasonable cost than would be the case if the company were not wholly owned by
4 Utilities, Inc. With increasingly more stringent health and environmental standards,
5 ready access to capital will prove vital to continued quality service in the water and sewer
6 utility business.

7 In addition, the Utilities, Inc. group of companies has national purchasing power
8 that results in lower costs to ratepayers. Expenditures for insurance, vehicles, chemicals
9 and meters are a few examples of purchases where national contracts provide tangible
10 benefits to ratepayers.

11 **Q. WHY IS TEGA CAY WATER SERVICE, INC. REQUESTING RATE RELIEF**
12 **AT THIS TIME?**

13 A. Under present rates, Tega Cay Water Service, Inc. is not able to meet its operating
14 costs and earn a reasonable return on its investment in the Tega Cay system. The utility's
15 current income statement is shown in the Company's Rate Case Application, Schedule B.
16 For the test year ended December 31, 2011, Tega Cay Water Service, Inc. earned a
17 -5.60% return on its rate base, which is approximately 14.54% lower than the Company's
18 current cost of capital, which, as the Commission will hear from the Company's cost of
19 capital witness Pauline Ahern, is approximately 8.94%. In Docket No. 2009-433-W/S
20 Tega Cay was authorized in Commission Order No. 2010-557 to increase its annual
21 revenues by \$204,556, which included a stipulated return on equity of 9.57% and a return
22 on rate base of 7.99%. Tega Cay Water Service, Inc.'s current return on rate base of
23 -5.60% is more than 1300 basis points below that authorized return. In addition, Tega

1 Cay Water Service, Inc.'s return on equity is -19.94%, which is far below the last
2 authorized return on equity of 9.57%.

3 Without satisfactory rate relief, Tega Cay's ability to continue to provide safe,
4 reliable and efficient water and sewer utility services to its customers and meet its
5 financial obligations will be placed in jeopardy.

6 **Q. PLEASE DESCRIBE THE COMPANY'S APPLICATION.**

7 A. The Rate Case Application includes the financial statements for Tega Cay. The
8 subsections are as follows:

- 9 • Schedule A – Balance Sheet
- 10 • Schedule B – Income Statement
- 11 • Schedule C – Rate Base and Rate of Return
- 12 • Schedule D – Water and Sewer Consumption Analysis
- 13 • Schedule E – Proposed Revenues
- 14 • Schedule F – Schedule of Current and Projected Customers
- 15 • Schedule G – Effect of Proposed Rates

16 In addition, included are the most recent letters from DHEC, a sample customer
17 bill and the Company's most recent Gross Receipts Tax filing. The test year chosen is the
18 year ended December 31, 2011 that was the twelve-month period of the Company's most
19 recent fiscal year available at the time of the Company's filing.

20 **Q. PLEASE EXPLAIN HOW TEST YEAR EXPENSES WERE ADJUSTED.**

21 A. Pro forma adjustments were made to the test year expenses based on known and
22 measurable changes to actual expenses.

23 **Q. WHAT ARE THE KNOWN AND MEASURABLE PRO FORMA ADJUSTMENTS**

1 **MADE TO THE INCOME STATEMENT SCHEDULE B?**

2 A. The following adjustments have been made to the income statement:

- 3 • Revenues are annualized at proposed rates using the test year customers;
- 4 • Uncollectible Accounts are adjusted based on the percentage of uncollectible
5 accounts to revenues in the test year applied to pro forma proposed revenues;
- 6 • Salaries, Wages and Benefits are adjusted to annualize as of the end of the year;
- 7 • Regulatory commission expense has been adjusted to reflect the cost of the current
8 rate case and the cost of the unamortized expense from the prior case over 3 years;
- 9 • Depreciation and amortization expense are annualized. Depreciation expense
10 represents gross depreciable plant at the end of the year plus pro forma projects
11 multiplied by their respective depreciation rates;
- 12 • Taxes other than Income is adjusted for annualized payroll taxes, Utility Commission
13 Taxes, and Gross Receipts Taxes;
- 14 • Income Taxes are computed on taxable income at current rates;
- 15 • AFUDC is eliminated for rate making purposes;
- 16 • Interest on debt is computed using a 50.25%/49.75% debt/equity ratio and a 6.60%
17 cost of debt;
- 18 • Transportation and depreciation expense adjustments are based on a new allocation
19 methodology;
- 20 • Operating expense charged to plant has been adjusted for projected increases in
21 salaries, taxes, and benefits for operators.

1 Q. REGARDING THE COMPANY'S RATE BASE, HAS IT INCREASED SINCE
2 THE COMPANY'S LAST RATE INCREASE AND ITS LAST RATE CASE TEST
3 YEAR AND, IF SO, HOW?

4 A. Yes. Since its test year ending December 31, 2008, Tega Cay Water Service, Inc.
5 also has increased its total rate base from \$1,987,971 to \$3,571,121 as follows:
6

	Per Books (Prior) Application	Per Books (Current) Application	Difference	%
Plant in Service	12,472,631	14,611,963	2,139,333	17.15%
Accumulated Depreciation	(3,601,952)	(4,409,030)	(807,078)	22.41%
Cash working capital	111,480	141,339	29,859	26.78%
CIAC	(6,326,120)	(5,864,366)	461,754	-7.30%
Customer deposits	(51,227)	(35,847)	15,380	-30.02%
ADIT	(616,840)	(872,937)	(256,098)	41.52%
Total	1,987,971	3,571,121	1,583,150	70.54%

7
8 Q. HOW HAVE THE INDIVIDUAL SYSTEMS/SUBDIVISIONS SERVED BY TEGA
9 CAY WATER SERVICE, INC. BENEFITTED FROM THE ADDITIONS TO
10 PLANT?

11 A. As shown in the above chart, the Company has added approximately \$1.58
12 million of rate base since its last rate case. However, approximately \$2.13 million has
13 been invested in system improvements. As more fully addressed by Patrick Flynn, our
14 Regional Director, these plant additions include the replacement and upgrade of sewer

1 and water mains, meters, lift station and other plant used in ensuring that customers
2 receive safe and reliable sewer service. Mr. Flynn will further describe these
3 improvements as well; however, these items include water and wastewater treatment
4 plant upgrades; replacement of structural, electrical and mechanical assets;
5 instrumentation; generators and associated equipment; water wells and well pumping
6 equipment; engineering and other technical services.

7 **Q. WHAT ARE THE PRO FORMA ADJUSTMENTS MADE TO THE RATE BASE**
8 **STATEMENT (SCHEDULE C)?**

9 A. The following adjustments were made to the rate base statement:

- 10 • Working capital has been calculated based on pro forma expenses;
- 11 • Accumulated depreciation has been adjusted for planned additional capital
12 investments, and retirements. Accumulated depreciation for computers and vehicles is
13 recalculated based on the Equivalent Residential Customers, or “ERC” allocation
14 methodology.
- 15 • General ledger additions and associated accumulated depreciation up to rate base
16 audit cut-off date established by the Office of Regulatory Staff, or “ORS”, have been
17 added.
- 18 • Contribution in aid of Construction or “CIAC” amortization expense is annualized
19 using the appropriate amortization rate.

20 As of December 31, 2011, based on pro forma adjustments, the Company has a
21 rate base of over \$4.73 million. Between 2009 and 2011, Tega Cay has spent
22 approximately \$1.03 million on capital expenditures for various projects throughout our
23 systems, including the expansions and upgrades to several wastewater treatment plants,

1 along with the replacement of mains, manholes and other infrastructure. A description of
2 these capital improvements, by subdivision or system where appropriate, is provided in
3 the testimony of Mr. Flynn. Documentation of these improvements was also provided to
4 ORS in the course of its audit.

5 **Q. YOU MENTIONED THAT THE COMPANY ADDED GENERAL LEDGER**
6 **ADDITIONS AND PRO FORMA PLANT ADDITIONS; COULD YOU**
7 **DESCRIBE THOSE PROJECTS?**

8 **A.** Certainly. Tega Cay Water Service, Inc. has completed the following pro forma projects:

<i>Project Description</i>	<i>Amount</i>
Install UV disinfection WWTP 2	\$ 228,512
Install UV disinfection WWTP 3	242,152
REBUILD BLOWER AND BLOWER MOTOR	11,030
Tega Cay #2 WWTP TPO4 Treat.	94,395
Tega Cay #3 WWTP TPO4 Treat.	106,983
Tega Cay Bulkhead	349,674
Total	\$ 1,032,746

9
10
11
12 **Q. WOULD YOU PLEASE SUMMARIZE THE PROPOSED CHANGES IN THE**
13 **COMPANY'S RATE SCHEDULE?**

14 **A.** Exhibit "A" to the Application contains the Company's Schedule of Proposed
15 Water and Sewer Charges. The company has proposed to increase the water customer
16 Residential Base Facility Charge from the current charge of \$8.71 per month to \$11.85
17 per month and the water Commodity Charge from \$2.06 per 1,000 gallons to \$2.75 per
18 1,000 gallons.

1 The Company has proposed to increase its sewer charges as follows:

2 Type	Present	Proposed
3 Residential/Commercial	\$ 39.06	\$ 65.19

4
5 **Q. YOU MENTIONED A NEW ALLOCATION METHODOLOGY OF COMMON**
6 **COSTS; WOULD YOU PLEASE ELABORATE ON THAT?**

7 A. Certainly. As I previously stated, Tega Cay Water Service, Inc. is a wholly owned
8 subsidiary of Utilities, Inc. Utilities, Inc. also wholly owns over 70 other subsidiaries in
9 15 different states. Utilities, Inc. also wholly owns Water Service Corporation, or
10 “WSC”, which is a services company that provides, management, operations, billing,
11 accounting and customer services benefits to Utilities, Inc.’s subsidiaries. WSC operates
12 without profit. Costs that are not directly assignable to a specific subsidiary are booked
13 to WSC and are allocated to the Tega Cay Water Service, Inc. subsidiaries at year end,
14 based on the proportion of active Equivalent Residential Customers (“ERCs”) served by
15 the operating company subsidiary to the total number of active ERCs served by the
16 Utilities, Inc.’s other operating company subsidiaries.

17 **Q. WHAT RATEMAKING METHODOLOGY DOES THE COMPANY PROPOSE**
18 **THAT THE COMMISSION EMPLOY IN THIS RATE CASE?**

19 A. The Company proposes that the Commission use a rate base rate of return
20 employing a return on equity to set rates that generates a return on equity consistent with
21 Pauline Ahern’s testimony.

22 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

23 A. Yes it does.